



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Sterling Academy of Mathematics and Science**

As of June 30, 2002

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**Debra K. Davenport**  
Auditor General

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## Accounting Services Division Staff

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**Jerry Strom**, Manager and Contact Person  
jstrom@auditorgen.state.az.us

**Roger Walter**  
**Erin Castelhana**

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

July 12, 2004

Board of Directors  
Sterling Academy of Mathematics and Science  
DBA Bright Ideas Charter School  
5025 East Van Buren  
Phoenix, AZ 85008

Board of Directors:

We have reviewed the School's audit reports and Uniform System of Financial Records for Arizona Charter Schools (USFRCS) Compliance Questionnaire for the year ended June 30, 2002, to determine whether the School substantially complied with the USFRCS.

As a result of our review, we noted significant deficiencies in internal controls that indicate the School has not complied with the USFRCS. In addition, as of the date of this letter, the School had not submitted audit reports or a USFRCS Compliance Questionnaire for the fiscal year ended June 30, 2003. Consequently, the School is also in noncompliance with the USFRCS for nonsubmission of reports for that year.

We also noted that the auditor disclaimed an opinion on the School's financial statements for the year ended June 30, 2002, because detailed accounting records and other supporting documentation were not available for review.

School management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction. During the 90-day period, the School may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call Beth Brantley, Director, in a few weeks to discuss the School's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the School's internal controls to determine whether the School is in substantial compliance with the USFRCS. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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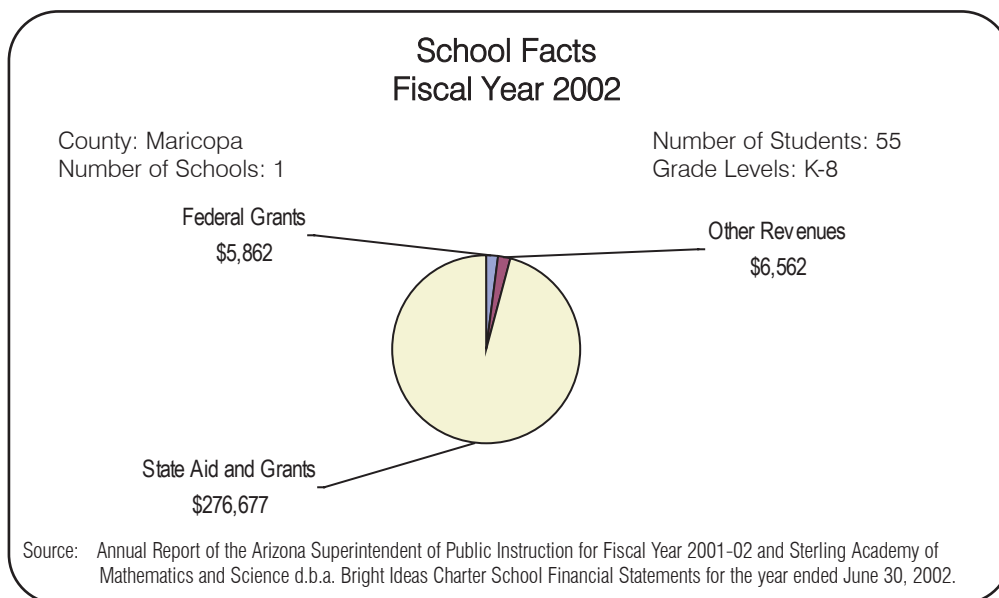
# INTRODUCTION

Sterling Academy of Mathematics and Science d.b.a. Bright Ideas Charter School is accountable to its students, their parents, and the local community for the quality of education provided. The School is also financially accountable for over \$280,000 it received in fiscal year 2001-02 to provide this education.

The School should use effective internal controls to demonstrate responsible stewardship for the dollars it receives. These controls are set forth in the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFRCS incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to charter schools. The School is legally obligated to comply with USFRCS requirements, and doing so is good business practice.

As a result of our review of the School's audit reports and USFRCS Compliance Questionnaire for the year ended June 30, 2002, we determined that the School had failed to comply with the USFRCS. In addition, because detailed accounting records were not available for review, the School's auditor disclaimed an opinion on the School's financial statements for the year ended June 30, 2002.

We noted certain deficiencies in controls that the School's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFRCS. Our recommendations are described on the following pages.



## The School must retain accounting records to support its operations

The School's auditor did not express an opinion on the School's financial statements because of inadequate accounting records.

Arizona charter schools are supported by monies received from the State or a local school district governing board. Accordingly, they are subject to Arizona's Public Records Law. The Arizona State Library, Archives and Public Records, Records Management Division publishes guidance on what records must be retained by charter schools. However, the School did not retain its detailed accounting records and other supporting documentation. As a result, the School's auditor was unable to determine if the School's financial statements were fairly stated for fiscal year 2002.

### Recommendation

To help ensure compliance with Arizona Public Records Law and to provide sufficient documentation to support the amounts reported in the School's financial statements, the School must prepare and retain documentation to support its financial and nonfinancial activities in accordance with the USFRCS and the *Records Retention and Disposition for Arizona School Districts* manual published by the Arizona State Library, Archives and Public Records.

## The School's student attendance procedures and records need improvement

During a site visit, ADE could not determine if the School received the proper amount of state aid due to incomplete and missing attendance records.

The State of Arizona provides funding to schools based on student attendance. In turn, the State requires schools to accurately document student entry and withdrawal dates, attendance, and absences. However, during an ADE site visit, student attendance and absences could not be determined because attendance records were incomplete. Original teacher attendance registers were incomplete; student entry and withdrawal forms were not always prepared or retained; and attendance was not calculated accurately, since half-day absences were not recorded in the attendance records. Further, the School's attendance records were so incomplete that ADE was unable to verify the number of students counted during its surprise head count to the attendance records provided.

## Recommendations

To help ensure that membership and absences are accurately calculated and reported, the School should perform the following:

- Train school personnel in the proper procedures to account for student attendance and absences.
- Prepare and retain an entry form for each student enrolling in the School and a withdrawal form for each student leaving the School. A school administrator should sign the forms to verify that the entry and withdrawal dates are accurate.
- Instruct teachers to record students as absent if they attend class less than half the day. If students attend class more than half the day, but less than three-quarters of the day, instruct teachers to record a half-day absence. If students attend class more than three-quarters of the day, then no absence is recorded.
- Instruct teachers to record absences in their attendance registers and ensure that absences agree with the School's attendance records. Maintain complete registers and attendance records.
- Have a second employee review the membership and absence information submitted to ADE to ensure the amounts agree with the School's attendance records.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

## The School must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFRCS guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that schools receive the best possible value for the public monies they spend. However, the School may not have followed the School District Procurement Rules or the USFRCS guidelines. Specifically, the School did not maintain documentation to support payments made to vendors that may have exceeded the procurement thresholds. Therefore, the auditor was unable to determine if the School should have obtained bids/proposals or written/oral price quotations for purchases.

The School may not have received the best value possible for goods and services as the auditor was unable to determine, due to inadequate records, if the School obtained the proper bids/proposals or written/oral price quotations for purchases.



School District Procurement Rules list the requirements for competitive sealed bids or proposals for goods and services in excess of \$35,000.

USFRCS Memorandum No. 29 requires:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$35,000.

## Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFRCS guidelines, the School should obtain competitive sealed bids or proposals for purchases of construction, materials, or services exceeding \$35,000. In addition, the School should obtain oral price quotations from at least three vendors for purchases costing between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases costing between \$15,000 and \$35,000. The purchase may be a single item within the price range, or it may be a collection of items that, in the aggregate, are within the price range. If the School cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations. Also, if a vendor is selected for reasons other than the lowest price, such as quality of product or work to be performed, the reasons for selecting that vendor should be fully documented and retained.

## The School should establish controls over disbursements

The School's procedures were inadequate to control the disbursement of monies because purchase orders and receiving reports were not prepared, and the Board of Directors did not approve disbursements.

The School spends public monies to purchase goods and services, so it is essential that the School follows procedures designed to help ensure that these monies are spent appropriately and that those transactions are recorded properly. However, the School did not separate disbursement processing duties, as one employee was responsible for the entire disbursement process. Also, the School did not prepare purchase requisitions, purchase orders, or receiving reports to support disbursements, and the Board of Directors did not approve disbursements.

Further, the School was unable to locate some supporting invoices, did not cancel invoices for disbursements in July 2001, and also did not always pay expenses in the correct fiscal year.

## Recommendations

The following procedures can help the School establish controls over disbursements:

- Separate disbursement processing duties among employees so that no one employee performs all the processes of the disbursement cycle. If the School is unable to adequately separate responsibilities because of insufficient staff, it should require additional supervisory reviews in the process.

- Prepare purchase requisitions and purchase orders for all disbursements except exempted items. Receiving reports should be prepared for all goods and services received.
- Stamp vendor invoices and other supporting documents as paid after payment, and record the voucher and check numbers, amount, and date paid on the invoice. Vendor invoices should be retained to support disbursements.
- Obtain the Board of Directors' approval for all disbursements. The Board may delegate the authority to approve disbursements between board meetings; however, the Board should review and approve a report of disbursements at least monthly.
- Prepare a list of goods and services received on or before June 30 that were not paid by that date to help ensure expenses are recorded in the correct fiscal year.

USFRCS pages VI-G-2 through 6 describe disbursement processing procedures.

## The School should improve controls over its cash and bank accounts

Because of the relatively high risk associated with cash transactions, schools should establish and maintain effective internal controls to safeguard cash. However, the School did not accomplish this objective. For example, revenues were deposited into the bank account of another entity, Bright Ideas Preschool and Learning Center, and separate accounting records of each entity's revenues and expenses were not maintained. Also, the auditor stated that the School did not appear to have collateral for its bank deposits in excess of \$100,000, the Federal Deposit Insurance Corporation (FDIC) threshold. As a result, bank deposits totaling \$45,299 may have been uninsured and uncollateralized at June 30, 2002.

The School improperly deposited its revenues into the bank account of another entity, Bright Ideas Preschool and Learning Center.

The School did not prepare prenumbered and numerically controlled cash receipt forms when receiving cash and did not have supporting documentation for customer withdrawals listed on its June 2002 bank statements.

## Recommendations

To help strengthen controls over bank accounts, the School should establish and follow the policies and procedures listed below:

USFRCS pages VI-F-1 through 3 provide policies and procedures for recording cash receipts.

- Establish a general bank account approved by the Board of Directors to account for all resources used to finance school operations, except those required to be accounted for in other specific-purpose bank accounts.
- Obtain a collateral agreement from the bank for balances on deposit in excess of the FDIC threshold.
- Prepare prenumbered and numerically controlled cash receipt forms in triplicate for cash received. Give the original cash receipt form to the payor, attach one copy to supporting documentation, and retain the other copy in the file.
- Retain supporting documentation for all disbursements and withdrawals from bank accounts.

## The School should prepare a capital assets list

The School did not maintain a complete and accurate capital assets list, nor were assets tagged as school property to protect them from loss or theft.

The School has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the School to have an accurate list of these assets and to ensure that they are properly identified. However, the School did not maintain a capital assets list or tag assets to identify them as school property.

## Recommendations

The following procedures can help the School ensure that its capital assets list is accurate and complete:

- Prepare a detailed capital assets list that includes all equipment with unit costs of \$300 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$3,000 or more.
- Affix a tag with an identifying number to each equipment item costing \$300 or more, or use some other means, such as a serial number, to specifically identify each asset on the capital assets list.
- Update the capital assets list annually for items acquired, disposed of, or transferred.
- Perform a physical inventory of all equipment at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the list and add items to or remove items from the list as necessary.

USFRCS page VI-E-2 describes information that should appear on the capital assets list.

Instructions for performing a physical inventory of capital assets is listed on USFRCS pages VI-E-7 through 9.